

Solid Waste Privatization Discussion

April 24, 2012 City Council Work Session



Purpose of Presentation



- Discuss Forms of Privatization
- Identify Key Issues and Outcomes
- City Council Discussion

What is Privatization?



The transfer of Solid Waste services, assets, and function to the private sector.

Why Consider Privatization?



- Cost Savings
- Improved Quality
- Access to Experts
- Innovation
- City focuses on “Core Services”
 - Police
 - Fire

Forms of Privatization



1. Service Contract

- Similar to standard service agreements
- Primary Factor: Cost of Service

2. Franchise Agreement

- Similar to utility agreements (e.g. Cox, APS)
- Primary Factor: Franchise Fee

3. Divestiture

- City Completely Gets Out of Service

1. Service Contract Option



- Enterprise Fund Remains
- City sets Rates
- Provider Selection Process
 1. RFP/RFQ
 2. Managed Competition
- Provider Evaluation Criteria
 - Cost of service to city
 - Experience: personnel, similar customers, etc.
 - Equipment: vehicles, facilities, etc.

RFP/RFQ Example



- City of Goodyear
 - Contract with Waste Management through 2019
 - Solid waste and recycling collections
 - Detailed 63 page scope of work
 - Service Frequency (zones, times, etc.)
 - Types of vehicles required
 - Performance reporting & penalties, etc.
 - Cost increase stipulations (e.g. CPI)
 - End of contract requirements
 - NOTE: City provides bulk waste collection and program management

Managed Competition Process



- City Solid Waste Division and private contractors compete in bidding process to determine who can best provide services to customers at the lowest cost
- Defined Selection Process
- If selected, city department becomes a “contractor” to city
 - City department required to meet all contract deliverables as if external vendor

Managed Competition Example



- City of Phoenix
 - Managed Competition used since 1979
 - 10 service areas: ~40,000 accounts per area
 - Currently all areas serviced by City
 - Bid process conducted every 2 years
 - 6 year contracts (rotation of zones)
 - 50% exception rule
 - Limit of 5 service areas that can be privatized in order to maintain minimum service capability
 - Since 1979, 6 different contractors have provided solid waste services to city

2. Franchise Agreement Option



- Similar to Service Contract Option
 - Scope of work, evaluation, performance, etc.
- Primary differences:
 - Franchise fee paid to city
 - Percentage of “gross receipts” (e.g. 5%)
 - Franchise fee is recoverable cost of business
 - Rates
 - Set by franchise agreement
 - City may retain rate setting responsibility
- Unable to Locate Sample of Arizona Solid Waste Franchise Agreement

3. Divestiture Option



- Process to Completely Get Out of Solid Waste Business
- Enterprise Fund Eliminated
- Appears to be More Prevalent in Municipalities with Significant Long-term Assets
 - Transfer Facilities
 - Landfills
- Looking for Arizona Examples

Policy Issues



- Which Services?
 - Residential/Bulk
 - All Served by City except Sun City Grand per DA
 - Commercial/Multi-Family
 - Served by Private Providers
 - 11 Current Providers
- Which Form of Privatization?
 1. Service Contract
 2. Franchise Agreement
 3. Divestiture

- Further Legal Analysis Needed
- Implications of Eliminating the Enterprise Fund
 - What becomes of Fund Balance?
 - What becomes of the Assets?
- Implications of “Go Away” Costs
 - Direct Costs
 - Personnel, Supplies, Services, Capital costs
 - Indirect Costs
 - Division overhead costs
 - Supporting department expenses

Discussion and Questions

